



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER MENIFEE COUNTY SHERIFF**

Calendar Year 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Hershell Sexton, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Honorable Sam Swartz, Former Menifee County Sheriff

Members of the Menifee County Fiscal Court

The enclosed report prepared by Stephens & Lawson, P.S.C., Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Menifee County, Kentucky, as of December 31, 1998.

We engaged Stephens & Lawson, P.S.C., to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, P.S.C., evaluated the Menifee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER MENIFEE COUNTY SHERIFF**

Calendar Year 1998

EXECUTIVE SUMMARY

MENIFEE COUNTY
SAM SWARTZ, FORMER SHERIFF
CALENDAR YEAR 1998
FEE AUDIT

The Menifee County Sheriff's fee audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). The audit revealed four reportable compliance issues and no reportable internal control issues. The reportable compliance issues are detailed in the comments and recommendations. The Former Sheriff received operating revenue from various sources, including a federal grant of \$4,420 for Forest Patrol. The Former Sheriff's office generated no excess fees as net receipts were less than the former Sheriff's statutory maximum salary.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
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Independent Auditors' Report

We have audited the accompanying statements of receipts, disbursements, and excess fees of the Sheriff of Menifee County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for the County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and fees of the Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff Should Have Published An Annual Settlement
- The Former Sheriff Should Have Maintained Daily Records
- The Former Sheriff Should Have Prepared Monthly Bank Reconciliation's

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Independent Auditors' Report
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated August 23, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed-
August 23, 2000

MENIFEE COUNTY
SAM SWARTZ, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

Federal Grant-		\$	4,420
State Fees For Services-			
Finance and Administration Cabinet			2,558
Circuit Court Clerk -			
Fines and Fees Collected	\$	1,244	
Sheriff Security Services		<u>1,425</u>	2,669
Fiscal Court			575
County Clerk - Delinquent Taxes			5,593
Commission on Taxes Collected			26,274
Fees Collected For Services -			
Auto Inspections	\$	1,045	
Serving Papers		<u>3,636</u>	4,681
Other -			
Carrying Concealed Deadly Weapon Permits			<u>840</u>
Total Receipts (Carried Forward)		\$	47,610

The accompanying notes are an integral part of the financial statements.

MENIFEE COUNTY
SAM SWARTZ, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1998
(CONTINUED)

Total Receipts (Brought Forward)		\$	47,610
<u>Disbursements</u>			
Contracted Services -			
Advertising	\$	168	
Contract Labor		<u>5,795</u>	5,963
Supplies and Materials -			
Office Materials and Supplies	\$	199	
Uniforms		<u>85</u>	284
Auto Expense -			
Repairs and Maintenance			2,143
Other Charges -			
Carrying Concealed Deadly Weapon Permits	\$	780	
Insurance		540	
Miscellaneous		<u>242</u>	1,562
Total Disbursements			<u>9,952</u>
Net Receipts	\$	37,658	
Less: Statutory Maximum		<u>48,726</u>	
Balance Due at Completion of Audit	\$	<u><u>-0-</u></u>	

The accompanying notes are an integral part of the financial statements.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Revenue and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.85 percent.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(CONTINUED)

NOTE 3 - DEPOSITS

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff met the requirements stated above, and as of December 31, 1998, deposits were fully collateralized at a 100 % level with securities held by the County official's agent in the County official's name.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Hershell Sexton, County Judge/Executive
Honorable Sam Swartz, Former Menifee County Sheriff
Members of the Menifee County Fiscal Court

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards

We have audited the former Menifee County Sheriff as of December 31, 1998, and issued our report thereon dated August 23, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Menifee County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff Should Have Published An Annual Settlement
- The Former Sheriff Should Have Maintained Daily Records
- The Former Sheriff Should Have Prepared Monthly Bank Reconciliations

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Hershell Sexton, County Judge/Executive
Honorable Sam Swartz, Former Menifee County Sheriff
Members of the Menifee County Fiscal Court

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully Submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
August 23, 2000

COMMENTS AND RECOMMENDATIONS

MENIFEE COUNTY
SAM SWARTZ, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

STATE LAWS AND REGULATIONS

1) The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). Even though the former Sheriff obtained pledged securities of \$450,000, the pledge was not evidenced by a written agreement. We recommend the former Sheriff should have entered into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

None.

2) The Former Sheriff Should Have Published An Annual Settlement

The former Sheriff should have published an annual settlement of fee receipts and expenditures for calendar year 1998 within sixty days following the end of the calendar year as required by KRS 424.220. We recommend the Sheriff's office publish annual settlement of receipts and expenditures as required.

Management's Response:

None.

3) The Former Sheriff Should Have Maintained Daily Records

The former Sheriff should have maintained daily records for calendar year 1998. Daily deposits were not made, daily receipts and disbursements ledgers were not maintained, and daily checkout sheets were not used. Most original receipts were not given back to the customers. Deposits were normally made whenever a large check was received, about once every two weeks. The former Sheriff should have followed the Technical Audit Bulletin prepared by the Auditor of Public Accounts for fee officials by posting receipts to a daily checkout sheet, which is then posted to the receipts ledger and the total of which agrees to the daily deposit. The receipts ledger should have been totaled monthly and the customer should be given their copy of the receipt issued. We recommend the Sheriff's office comply with the Auditor of Public Accounts' Technical Audit Bulletin.

Management's Response:

None.

MENIFEE COUNTY
SAM SWARTZ, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
(Continued)

4) The Former Sheriff Should Have Prepared Monthly Bank Reconciliation's

The former Sheriff should have prepared monthly bank reconciliation's. The former Sheriff did not prepare monthly bank reconciliation's as required by Technical Audit Bulletin 93-002, issued by the Auditor of Public Accounts. We recommend the Sheriff's office comply with the Auditor of Public Accounts' Technical Audit Bulletin by preparing monthly bank reconciliation's and comparing those reconciliation's to book balances.

Management's Response:

None.

PRIOR YEAR:

Prior Year Findings Have Not Been Corrected. The same findings are noted for calendar year 1998.

